

Viridian is the cover story of Brownfield Economics

Brownfield Renewal Magazine

6/1/2009

Brownfield Economics Go Green

By Elizabeth Brewster

With apologies to Charles Dickens, the year ahead is shaping up to be both the best of times and the worst of times for the business of brownfields.

On the one hand, "brownfield financing has always been difficult, and now it's even more so," says Craig Carbrey, president and chief credit officer of EnviroFinance Group in Sacramento, Calif., which specializes in brownfield lending. "There just isn't that much activity. . . . There will be ripple effects from the [federal government] stimulus plan, but you won't see the impact of that for some time."

David Lloyd, director of the Office of Brownfields and Land Revitalization at the Environmental Protection Agency, agrees that "although there's no concrete data on how the economic turmoil is affecting brownfield projects, there is a slowing down right now of any project relying on private lending capital—it's just not flowing as freely."

On the other hand, state programs for cleanup approvals "are very strong," says Lloyd, "a good indicator that even though things have slowed, at least on the pre-development side they're moving along quite well."

"This is an excellent time to reposition properties," adds Sven-Erik Kaiser, policy team leader for the EPA brownfields office. "Brownfield redevelopment often finds itself at the core of economic recovery. . . . Now is the time to do the predevelopment work of assessing properties and cleaning them up. As the economy recovers, these will be the properties that are ready to go."

Stimulus in action

With President Barack Obama's February announcement of the \$757 billion American Recovery and Reinvestment Act of 2009, a stimulus plan designed to help jumpstart the economy and invest in environmental protection, the landscape of brownfield economics is shifting. New sources of funding for "green" grants and loans are designed to change the equation and make environmentally friendly projects like brownfield development more economically appealing.

"There's billions of dollars of potential [for brownfields]," says Charlie Bartsch, a senior fellow at ICF International who is based in Washington, D.C. "There's \$100 million [in the stimulus plan] specifically for brownfield activities . . . and certainly some of the [other]

funds, such as clean water and drinking water funds, or transportation money, could be potentially pulled in to support brownfield type activities.

"If you have a brownfield project but portray it as an infrastructure project or an energy facility location project, some of these [Recovery Act] resources can be brought in to deal with the brownfield needs," he adds.

The new government stimulus money is a "game-changing event," agrees Kevin Matthews, vice president, energy and environment at NSI, a business-to-government consulting firm based in Washington, D.C. "There are lots of opportunities in the different pots of money out there. The question is, what are the states' and localities' priorities going to be, and how are they going to partner in terms of brownfield activities? Some communities are more enamored of brownfields than others in this economic situation."

Bartsch also points out that the Department of Energy has earmarked some of its stimulus funding for energy efficiency and conservation block grants. "That's more than \$3 billion that communities can use for solar panel farms, retrofitting buildings, all sorts of things that could be very directly linked to brownfield strategies in communities," he says.

Gus Ezcurra, chief executive officer of Advanced Telemetry in San Diego, sees the stimulus money for green energy technology as an opportunity to establish businesses that can kick start an entire sustainable building industry. "All of this green technology is a brand new field, with opportunities for retraining [workers] and developing and encouraging green building on brownfield sites," says Ezcurra. "There's the ability for [stimulus] money to be made available to rebuild your building with green technology. That rebuilt building will have some energy efficiency implications, and now you've got other [stimulus] benefits coming your way."

Although redeveloping blighted inner city areas is an important part of the stimulus plan, brownfield developers shouldn't overlook rural areas, adds Bartsch. "There are a lot of resources going to be devoted to rural development, primarily through loans and loan guarantees," he says. "Some rural communities could really do some interesting things— industrial park rehabilitation, site preparation."

Overall, the Recovery Act has the potential to usher in brighter days for brownfield development, says Bartsch, and right now "the situation is so fluid and the potential is so significant—so much is going to play out at the local level by local governments and their private partners who really figure out how to creatively tap into this. If ever there was an opportunity for creative local folks to take some things and run with it, this is it."

Making the numbers work

As with other development markets, brownfields are intimately tied in to what's going on with the U.S. economy and the overall real estate market. At the moment, of course, it's not a happy story, especially given the ongoing credit crunch.

"We're still doing some loans, but they're very difficult to put together," says EnviroFinance Group's Carbrey. "There aren't enough transactions to really establish value."

Carbrey says the successful brownfield deals he's seeing right now "have some kind of income side to them, such as finished properties with some remediation going on," or are projects in markets where "we know that the exit exists," he says. "How does the borrower

get out of this loan? You don't want to let it sit there for a couple of years. At a double-digit interest rate, it doesn't take too long to eat up all your profits."

Making sure the end user of a redeveloped brownfield is economically viable is key in this market, agrees **William Lynott, chief executive officer and founder of Viridian Partners, a brownfield redeveloper in Highland Ranch, Colo., that has repositioned more than 50 properties nationwide in the past 10 years.**

"We're doing it differently now—we are looking at investment opportunities where we minimize the real estate underwriting risk," says Lynott. "We look more toward the credit-worthiness of direct end users at the back end of our transactions. We did a lot of land speculating in major port areas in the past few years, but we'll only do it now if we feel we can deliver a back-end user at the end of our process."

Viridian's repositioning process for brownfield properties includes due diligence and assuming the remedial obligation through a remediation agreement with the environmental agency, procuring pollution insurance for the benefit of all parties, requiring cleanup and infrastructure contractors for the site to guaranty the achievement of critical performance milestones, and backing its indemnification to the seller by financial assurance instruments.

For now, "we are moving ahead with the repositioning of assets we already own, and also trying to prime our pipeline so that we have deals that will appeal to the marketplace as the first rays of sunshine begin to come down on all of us again," says Lynott. [Italics and bold added]

The traditional private-public financial partnerships behind many brownfield projects are also hitting roadblocks in the current economy, as communities struggle to cope with the loss of tax revenue.

"Clearly, the economic situation at the states and local governments is very, very bad," says NSI's Kevin Matthews. "Most states are in a deficit situation and just don't have the resources."

In fact, at least 80 percent of the states will confront a budget deficit in the 2008-2009 or 2009-2010 fiscal years, according to NSI research. Because no state except Vermont is permitted by its constitution to run a deficit from one fiscal year to the next, state governments are cutting back on expenditures and canceling or postponing expenses such as major capital improvement projects. The frozen credit markets have even caused a few states to delay their scheduled bond sales.

"Five years ago, if the cost of cleaning up [a brownfield site] was \$5 million, you might have had a municipality go out on its own credit and borrow money to get things started," says Philip R. McKenna, president of Kane, McKenna and Associates Inc., a Chicago-based provider of municipal and economic development financing and planning services. "They're unlikely to do that today . . . now they don't have any assurance the site's going to get redeveloped at all."

Reimbursement strategies such as tax increment financing (TIF) may encourage some cautious communities to proceed with brownfield development plans. TIF allows communities to finance debt for new development projects, by dedicating future TIF tax revenues generated by the development within a specific defined district for the repayment of debt. Municipalities are permitted to use TIF revenues to reimburse developers for site

preparation construction costs, so that local government coffers don't necessarily have to be tapped.

McKenna says the inflow of federal Recovery Act grants and loans is likely to help start some movement in the coming months: "The fact that there's low-cost money or grant money gets the development community interested in sites," he says.

Because Recovery Act funding from various government agencies started flowing across the country this spring, "the right brownfield developer working with the right city can have real progress done by the middle of summer [2009]," says Matthews. "Communities will have [some stimulus] resources in hand no later than the middle of the summer, and the rest of it will trickle in from then through September 2010."

And some areas are still seeing brownfield development despite the ups and downs of the economy, says Carbrey.

"Not everywhere is dead—parts of the Atlantic Coast, for example, are still strong," he says. "You've got to have good economics on your project—that will always work."

"The next six to 24 months is a wonderful buying opportunity [for brownfield sites]," adds Lynott. "You have not only the market advantage of buying brownfield properties, but also the realities of the current market. It's a wonderful time to be a brownfield developer, in my opinion." [Italics and bold added]

The EPA's Lloyd emphasizes that although credit markets may be tight, government funds for brownfield assessment and cleanup are out there. "We have funding that is coming available for assessment and cleanup of site," he says. "Now is a very good time to get as many assessments as you can done on properties you own or will own, get them clean, get them ready. Our funds can help in that way.

"By doing that, taking the time to get a hold of asset and cleanup monies [now], it will help [developers] when the market begins to move back up. It will help them put together financing from private capital at that time."

Brownfield benefits

With investment in environmental protection as a major pillar of the Recovery Act, brownfield developers are in a prime position to take advantage of the nation's growing enthusiasm for "green" investments and sustainable development. In fact, the "halo effect" from doing the heavy lifting on a brownfield site as it evolves from blighted property to green community asset can be bright indeed.

"We're seeing significant interest in greener and more sustainable cleanup and redevelopment," says the EPA's Kaiser. "Our brownfield sustainability pilots were highly successful, and we're looking to make that a standard part of our toolbox. We're looking to work with stakeholders to develop standards and approaches for greener and more sustainable cleanups."

As the tough economy drives more companies out of business, often leaving behind empty buildings and industrial plants, brownfield redevelopment can help communities make lemons out of lemonade, say experts.

"As industries in some cases downsize, it opens up opportunities for the community to potentially get properties and take them into the city's inventory," says Lloyd. "That opens

up really good opportunities for great brownfield redevelopments. . . . These can be very good opportunities for a community to down the road build tax revenues and clean sites.”

“Most brownfields are pretty good at creating a new tax base, which communities are hungry for,” agrees NSI’s Matthews. Brownfield redevelopment can also help communities as they try to get ahead of the recession by creating jobs, he adds. “Brownfields do tend to create a significant number of jobs, either in the cleanup process or the building process,” he says.

Because brownfields tend to be located in areas that already are built up, redeveloping these sites instead of building farther out in the metro area can help cities cut costs, says Matthews. “In general, brownfields reduce the sprawl so cities don’t have to spend as much on infrastructure issues. That’s an economic incentive [to develop brownfields].”

Incorporating sustainable development into a brownfield investment can result in even more economic benefits, as future tenants reap the benefits of energy savings from weatherization, alternative energy sources and energy efficient-buildings. In fact, a company’s commitment to sustainability can help it outperform its peers in the current financial climate, suggests new research from A.T. Kearney Inc. Its new study, titled “Green Winners: The Performance of Sustainability-focused Companies in the Financial Crisis,” compared the financial performance of 99 companies with a strong commitment to sustainability with industry averages. In 16 of the 18 industries studied, the sustainable businesses outperformed industry averages by 15 percent from May to November 2008—averaging out to \$650 million in protected market capitalization by company.

“Our study indicates that the market rewards specific companies,” says Daniel Mahler, the study’s author. “We find common characteristics among the leading companies that show that sustainability goes far beyond the narrow definition of being environmentally friendly.”

In the end, the new national emphasis on sustainable development may help brownfield development take its rightful place at the “green” table. “In talking with investment managers, they’re beginning to appreciate that [brownfields] are truly a green form of investing,” says Lynott. “Not only do we put a piece of property back into play, but we can embrace all of these other green elements as part of our construction project. We can do a solar roof, natural resources restoration. It’s the ultimate green investing opportunity.” [Italics and bold added]

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